

Examiners' Report

June 2023

GCE Business 9BS0 02

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Introduction

Overall, the paper was accessible to the majority of candidates. Timing did not appear to be an issue, evidenced by the fact that most candidates were able to complete each question. However, there were often examples of candidates that wrote lengthy responses to certain questions, resulting in incomplete answers for others. There were certain topics that some candidates found challenging, specifically exchange rates, organic/inorganic growth, consumer protection legislation and PESTLE. The questions on these topics revealed wide differences in the level of understanding between candidates. As with previous sessions, the strongest candidates revealed the following qualities: good understanding of the topics examined based upon thorough revision, the ability to develop a line of argument for a few relevant points supported throughout by selective use of the extracts and when required, to produce a supported conclusion that directly answers the question. In preparing candidates for future exams, the importance of developing exam technique is crucial. There were many examples of candidates who revealed good subject knowledge but were unable to access the higher level marks due to an inability to develop their arguments or provide an overall judgement. Centres are advised to regularly use past exam questions with their students, both in class and for set work, in order to develop exam technique.

Question 1 (a)

Generally this question was well answered. Most candidates were able to define job production and/or identify a reason why Brompton would use it. Stronger responses provided an explanation that was directly linked to the uniqueness of job production and illustrated the reason with relevant examples from the extract. Weaker responses tended to be generic and often too long.

1 (a) Explain **one** reason why Brompton might use job production.

(4)

one reason why Brompton might use job production is to ~~add~~
~~to be able~~ gain the ability to adapt the product to the consumer
requirements. Using, for example, flow production would not allow
for any differences in the products. ~~which is~~ Job production
allows for a wider consumer base as it means each bike
can be unique.



This response is awarded 2 marks. It gains the knowledge mark for revealing correct understanding of job production. The second mark is given for application as the candidate has recognised that each bike is unique. However there is no explanation of the benefit that could result from 'a wider consumer base'.



Remember that there are two application marks for this type of question. Candidates need to provide two relevant examples to support their analysis.

1 (a) Explain **one** reason why Brompton might use job production.

(4)

job production is where the product is manufactured by skilled workers typically by hand such as Brompton "every bike is unique" with a "signature" this allows Brompton to have a USP which allows them to charge premium prices for their bike.



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Examiner Comments

This response gains 4 marks. Although it does not provide a definition, there is implied knowledge by referencing that 'each bike is unique', as well as the recognition that the product is 'manufactured by skilled workers'. Two relevant examples are provided to support the benefit to Brompton from using job production.



ResultsPlus
Examiner Tip

This type of question does not require a lengthy response. Usually two sentences will be sufficient.

Question 1 (b)

Candidates that knew the correct formula for calculating labour productivity generally scored full marks. Some common mistakes included not calculating the figure for each year to two decimal places or failing to calculate the difference between 2019 and 2020. A significant number of candidates wrongly calculated the % change. Many candidates were unable to answer this question because they did not remember the formula for calculating labour productivity.

- (b) Using the data in Extract B, calculate the change in labour productivity between 2019 and 2020. State your answer to two decimal places. You are advised to show your working.

(4)

$$48,956 \div 150 = 326.37 \text{ per worker in 2019}$$

$$48,956 \div 150 = 326.37 \text{ per worker in 2019}$$
$$69,062 \div 184 = 320.93 \text{ in 2020}$$

$$326.37 - 320.93 = 5.44$$

5.44 decrease per worker



ResultsPlus
Examiner Comments

This response achieves full marks. Although the formula for calculating labour productivity is not explicitly stated, the correct calculations reveals implied understanding.



ResultsPlus
Examiner Tip

Remember to always show working for all questions that require a calculation.

- (b) Using the data in Extract B, calculate the change in labour productivity between 2019 and 2020. State your answer to two decimal places. You are advised to show your working.

(4)

$$\begin{array}{r} \text{2019} \\ 48956 \\ \hline 150 \\ \hline = 326.37 \end{array} \quad \begin{array}{r} \text{2020} \\ 59022 \\ \hline 184 \\ \hline = 320.93 \end{array}$$

$$320.93 - 326.37 = 0.56\% \text{ change}$$

$$\text{Labour productivity} = \frac{\text{Number of products made}}{\text{Total employees}}$$



ResultsPlus
Examiner Comments

This response achieves 3 marks. Correct calculations for both years to two decimal places, but the difference has been expressed as a %.



ResultsPlus
Examiner Tip

It is important that candidates read the question carefully in order to answer it correctly.

Question 1 (c)

This proved to be an accessible question. Although many candidates did not reveal complete understanding of distinctive capability, the concept of innovation was clearly one that is familiar. Most candidates were able to provide an explanation of why innovation is a source of competitive advantage. The majority were able to provide another source of competitive advantage, but often these were not linked to the distinctive capabilities of reputation or architecture. Stronger responses were well structured. They started with a correct definition of distinctive capability, followed by separate paragraphs for each argument. Arguments were well developed and supported by relevant examples from the extracts. These responses ended with a final paragraph which contained a supported conclusion that directly answered the question.

(c) Assess whether the distinctive capability of innovation is the main reason that Brompton has a competitive advantage.

(10)

Having a distinctive innovation within a market can allow you to stand out within a market and gain a competitive advantage over competitors, being able to have your own unique selling point.

Brompton bicycle LTD uses a distinctive capability of innovation within the market in order for them to further increase sales. With them having over 1,450 official dealers around the world allowing the quantity of bikes being produced to be even higher. On the other hand, Brompton has a global reputation for design excellence and innovation, with exports accounting for 68% of total bicycle sales. However, they need to be able to have the staff in order to maintain this level of total bicycle sales, if not increase it.

Brompton bikes also has a very innovative and adaptive idea, with their bikes being able to be foldable and can be taken on all forms of transport.

This makes it easier for commuters and gains interest in the market. On the other hand, looking at how much the designers are constantly improving the bike in order to make it better leading to more sales, resulting in future profit. However, with their bikes being very unique, competitors may see this as an opportunity to expand into this market therefore creating more competitiveness.

Overall, I think that having a distinctive capability of innovation is good as it allows the business to stand out from competitors, giving them that competitive advantage. However, it depends on whether manufacturing can stay at this level to maintain sales. Most importantly being able to outperform competitors.



ResultsPlus
Examiner Comments

This response is awarded 4 marks. It provides elements of knowledge, but incomplete understanding of distinctive capability. A range of different points are made, often supported by reference to the extract, but these points are not developed. The conclusion is not fully supported by previous arguments.

(c) Assess whether the distinctive capability of innovation is the main reason that Brompton has a competitive advantage.

(10)

Kay's distinctive capabilities is a theory that looks at 3 factors; innovation, reputation and architecture; and their effect on Brompton's competitive advantage. Though innovation is a key part of the bike seller's competitive advantage, the architecture and reputation of Brompton bikes are ~~more important~~ arguably more important and so innovation is not the main reason for Brompton's competitive advantage.

The Architecture of a firm looks at the connection of key stakeholders and the structure (organisational) of Brompton Bicycles Ltd. This could be the main reason Brompton has a competitive advantage as without good relations with suppliers, the competitive advantage of Brompton would fall as ~~at~~ bad relations could cause items to be out of stock, or even delays on bike sales previously established. This would be detrimental to Brompton's consumer experience which is a focus of Brompton, reducing its competitive

advantage. Thus, a good architecture will lead to successful bike sales and overall customer experience and so could be the ~~most important~~ main reason for Brompton's competitive advantage.

On the other hand, Brompton's innovation is a key part of ~~the~~ competitive advantage as the bicycle stores include routine servicing and personalisation that can only be successfully carried out with ^{an} innovative business model. Furthermore, Brompton's bicycles fold as they understand in busy cities such as London, bikes will struggle to fit on tubes.

This innovative design feature gives Brompton Bikes a USP that will increase their competitive advantage.

Overall, though innovation as a distinctive capability will give Brompton a competitive advantage, potentially more than reputation, architecture is ~~for~~ the most important reason for the competitive advantage as stakeholders, especially suppliers, create a special, well-established service.



This excellent response is awarded full marks. It reveals good understanding of distinctive capability throughout. There are separate paragraphs for each argument that are well developed and supported by relevant use of the context. The conclusion is supported, contains perceptive judgement and directly answers the question.

Question 1 (d)

This proved to be the most challenging question on the paper. Although many candidates revealed good understanding of exchange rates and the effect on import and export prices, the biggest mistake was the incorrect interpretation of the graph. Candidates misinterpreted the change from \$1.15 = £1 in April 2020 to \$1.38 = £1 in April 2021 as an appreciation of the dollar rather than the £. Consequently the analysis of the consequences of this change on Brompton's sales could not be credited. Conversely candidates who recognised that the £ had appreciated generally scored well. Better responses also recognised that demand for Brompton's bikes could be considered price inelastic due to its USP and reputation for good quality. Another common misconception was that an appreciation of the £ would result in increased export costs for Brompton, rather than US customers having to pay higher prices as a result of the appreciation of the £.

- (d) Using the data in Extract C, assess the effect on Brompton's sales of the change in the US dollar to the £, between April 2020 and April 2021.

SPICED

(12)

An exchange rate is one currency expressed in the form of another. One effect of the change in the exchange rate is that Brompton will have increased costs as exports will become more expensive as 68% of their sales are exported this could lower Brompton's profit margins, or they could increase the selling price, but becoming more less competitive. However this means that imports will become cheaper for Brompton, allowing them to lower things such as material costs from any imports that they could ~~also~~ make.

Another impact of the changing exchange rate is that it is always changing from 1.15 in 2020 to 1.37 in 2021, this can make it difficult for Brompton to plan ahead for the future and could make budgeting and decisions harder to make due to uncertainty. However the variable exchange rate could ~~bring new customers from overseas and~~ change Brompton's variable costs as in September of 2020 the exchange rate

had a spike upwards, ~~this~~ to \$1.35 to the Pound, this means that Brompton's costs are always changing which can make it difficult for them to do business day to day and they may need more working capital to combat this

on balance I think that Brompton's ~~costs~~ have ~~been~~ had their costs rise due to the change in exchange rate, and this exchange rate could allow foreign businesses to sell ~~their~~ their products cheaper, making Brompton's less competitive in the long term



ResultsPlus
Examiner Comments

This response is considered to be level 3, 6 marks.

It correctly identifies that the £ has appreciated, which would lead to an increase in the price of exports and a decrease in the price of imports. However there is evidence of confused understanding because the candidate considers that the cost of exporting would increase. The response gains application marks through the use of data from the graph to illustrate an argument. There is limited development of each argument, but a lack of focus on the question when the candidate discusses the problem of the exchange rate fluctuating.

(d) Using the data in Extract C, assess the effect on Brompton's sales of the change in the US dollar to the £, between April 2020 and April 2021.

(12)

\$1.15: £1 \$1.37: £1

An appreciation is when one currency becomes more valuable in comparison to the another.

In this case, the pound has appreciated relative to the dollar. In April 2020, £1 could was worth \$1.15 where, in April 2021, £1 was worth \$1.37. A strong pound could be beneficial to Brompton because importing raw materials from the US to their "London factory" will now be cheaper. As a result, Brompton's average costs will decrease. This could have a positive impact on sales if Brompton choose to lower prices whilst maintaining ^{their} profit margins. As a result, demand will increase and sales would increase. However, ~~sales will~~ the increase in sales will ~~be~~ depend on the price elasticity of their bikes. If ~~they~~ the bikes are price inelastic then, a decrease in prices will have little impact upon sales. This may mean that sales revenue decreases if Brompton choose ~~to~~ to lower prices when considering the appreciation of the £ relative to the dollar \$.

On the other hand, the appreciation of the ~~dollar~~ pound may negatively impact Brompton's sales. This is because, consumers in the US will have to pay higher prices to purchase bikes which have been imported from Brompton's London factory. As such, Brompton's "dealers... in New York" may see sales decrease as, they will have to increase prices in order to account for the weaker dollar. As such, US consumers may choose to buy bikes from domestic firms and, Brompton would see a decrease in sales as a result of changing exchange rates. However, consumers may be willing to pay higher prices. Brompton's "unique" designs could persuade consumers to ignore increased prices and choose Brompton over domestic manufacturers.

In conclusion, I feel Brompton will be negatively ~~affected~~ affected by the appreciation of the £ relative to the dollar. They are unlikely to import raw materials from the US and US based exports will decrease. However, the total impact ~~of~~ cannot be properly assessed without seeing the pound compared to other ~~exchange rates~~ currencies such as those in "Tokyo and Shanghai" (Japan and China).



This is an excellent response that is awarded full marks. It recognises that the £ has appreciated in value and uses data from the graph to illustrate this. The response is well structured, with separate paragraphs for each argument. Each argument reveals good understanding, is well developed and supported by selective evidence from the extracts. There is evidence of evaluation at the end of each argument too. The final conclusion directly answers the question and is fully supported by the previous arguments.



Interpretation of data from charts and graphs is commonly used for exam questions. It is important that candidates are given the opportunity to develop this skill through regular practice.

Question 1 (e)

The majority of candidates revealed good understanding of both organic and inorganic growth. Most responses developed arguments for each approach with use of relevant examples. An overall recommendation was usually made. The key difference between candidates was exam technique. The best responses were well structured, with selective well developed arguments, consistently supported by context. The overall recommendation was supported by previous arguments and made use of 'MOPS' to justify the decision. Weaker responses tended to lack structure, made too many undeveloped arguments and provided a conclusion that simply summarised previous points. Often weaker responses lost focus on the question by discussing how Brompton could use organic/inorganic growth to expand, rather than the strengths and limitations of each approach. A common misconception was that organic growth is only based upon internal finance and inorganic growth only financed externally.

Brompton has set itself the objective of expansion. It is considering two options to expand, either by organic or inorganic growth.

- (e) Evaluate these **two** options and recommend which one is the best for Brompton to achieve its objective of expansion.

(20)

Organic growth is growth within the business such as new premises, new products or employing more workers. One benefit of organic growth is that it is less risky than inorganic as it means Brompton doesn't have to restructure its organisational design. This means they can maintain good internal communication enabling production to meet demand. This is important to Brompton as they are a MNC that operate in many countries so communication is vital. As a result as the demand increases, supply is able to constantly meet it. As a result customers are satisfied ~~lead~~ leading to an increase in sales and revenue. Also ~~good communication~~ Also as shown in Extract D, inorganic growth lead to insufficient supplies of certain components so communication is important

However, a drawback of organic growth is that it is much slower than inorganic growth methods such as takeovers and mergers. This means that competitors that choose inorganic growth may expand faster than Brompton

gaining increased sales and market share. This leads to Brompton losing the potential of increased sales leading to a loss of profit and revenue. Also organic growth is very dependant on the sales of Brompton as it must be financed by it. This means that if ~~retained~~ retained profits are insufficient Brompton may have to turn to banks. This leads to an increase in long-term costs due to interest payments.

A benefit of inorganic growth through mergers or takeovers is that it allows for economies of ~~e~~ scales and cost synergies (benefits when 2 businesses become one that can't happen ~~then~~ when they are separate). This is As a result Brompton are able to offer lower prices which leads to an increase in revenue and profit as their bikes are highly specialised meaning they are highly income elastic. Also takeovers allow the share of expertise and distribution channels. This is shown in extract D as if they were to acquire businesses that sell complementary goods they would gain their experience of their sales strategies leading to higher productivity. This leads to economies of scale and therefore

higher profit margins.

However a drawback of inorganic growth is that it is more risky than organic as it could lead to higher costs and a culture clash. For example a takeover can lead to the duplication of jobs which means some are made redundant leading to an increase in short-term costs due to redundancy payments. Also a culture clash can lead to inefficiency and therefore lower productivity. As a result supply decreases or which may turn unhappy customers to competitors. This leads to a decrease in sales and therefore profit revenue.

In conclusion, Brompton should take an inorganic approach to expand. This is mostly because they operate in a dynamic market where innovation occurs constantly. Therefore a takeover/merger is more effective as it is faster and leads to better benefits such as increased market power and economies of scale. The effectiveness depends on Brompton's ability to increase production to meet demand. Therefore they should acquire a supplier of bike parts. This would lead to constant production as well as

higher profit as a suppliers' mark-up becomes theirs. Also previously, their growth & res led to a shortage of supply so backwards integration would be very beneficial.



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Examiner Comments

This is considered to be a level 4 response that is awarded 18 marks.

It reveals good understanding of both organic and inorganic growth. Separate paragraphs are used for each argument, which are well developed, make use of relevant theory and are supported by selective use of examples from the extracts. The limitations of each approach are considered. The recommendation is supported and makes use of 'MOPS' by the recognition that Brompton operates in a dynamic market and expansion would consequently be achieved more quickly through inorganic growth.

Brompton has set itself the objective of expansion. It is considering two options to expand, either by organic or inorganic growth.

(e) Evaluate these **two** options and recommend which one is the best for Brompton to achieve its objective of expansion.

(20)

If Brompton wishes to expand and franchise the store further and into different markets and locations, they will either have to use retained profit (organic growth) or reach out for outside investment (inorganic growth).

Organic growth uses the profit the company has gained in order to fund an expansion strategy in order to grow the business and gain more profit.

An advantage of this is that it is less risk than inorganic growth as it is their own money that is being used and so there is less worry about ^{wasting} ~~losing~~ the investors' money and still having to sacrifice part of the company.

A disadvantage to this however is that it means that there is a risk to the company in that it ~~can~~ ^{can} lead to the company not being able to pay off debts.

As a lot of the income that would be used to pay suppliers and such will be instead used to fund the expansion.

This could potentially lead to a disrupted relationship from Brampton and their manufacturers which could affect their business in delayed shipping times and less negotiating power.

Another benefit of using retained profits is that it ensures that the business remains under the control of Brampton's founder and CEO as by using inorganic growth it leads to less decision making power as they may take a percentage of the company in exchange which will lead to less profits and less power.

Inorganic growth is when a company seeks outside investment usually in exchange for a percentage of the company's future profits or a percentage share in the company.

An advantage of this is, is that the capital will come in much faster therefore.

The expansion will be able to start faster and new profits will come in. This will also mean that if the company is expanding to a new market/demographic it will ensure that their company will be set up before any other potential competitors therefore gaining an advantage over the other competitors.

A disadvantage to using inorganic growth is that it could lead to a less profit in the future as the investor is taking a percentage share of the business and so all future profits will not just be retained profit as a percentage will have to be paid out to the investor.

In addition it also leads to less decision making power, although the founder and CEO will know more about the market and know the company than the investor. The investor now has a say in how the business is run therefore resulting in less power.

Another disadvantage is if the company goes public it leads to the possibility of a hostile takeover in which an investor

Many purchase a majority share of the company which leads to no decision making power and no control over the company.

In conclusion I believe that organic growth is best as it has far less risk and ensures total business control and maximises profits at the expense of a faster business expansion.



ResultsPlus
Examiner Comments

This is a level 2 response awarded 8 marks.

Understanding is incomplete because the candidate considers that organic growth is only financed internally and inorganic growth externally. Valid points are made regarding the use of retained profit for organic growth, but with limited development and use of context. The arguments regarding inorganic growth are mainly incorrect.

Question 2 (a)

Most candidates were able to identify a problem resulting from rapid growth such as diseconomies of scale and overtrading. However a common weakness was that this problem often was not explained or illustrated with relevant examples from the extracts.

2 (a) Explain **one** likely problem experienced by Peloton due to its rapid growth.

(4)

Rapid growth is where a company grows too quickly for it to facilitate the demand. Peloton experienced "delays in production and delivery" after their '172%' rise in sales. This will have negatively affected consumer experience and satisfaction having to wait for their product. A result of this could be a decrease in new sales for Peloton if people don't want to join the waiting list.



ResultsPlus
Examiner Comments

This response gains full marks by providing a correct definition of a problem of rapid growth, followed by a valid example based upon information from the extract and an explanation of the consequence of this problem.

2 (a) Explain **one** likely problem experienced by Peloton due to its rapid growth.

(4)

One likely problem of rapid growth is overtrading. This is where a business uses too much of its resources and overtrades causing issues with ~~the~~ cash flow. This can be a problem to Peloton as this may cause them to have a lack of funds to be able to improve its business. As a result, the rapid growth may cause Peloton to lose out to competitors.



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Examiner Comments

This response gains a knowledge mark for identifying the problem of overtrading and an analysis mark for explaining a consequence. However there is no reference to relevant examples from the extracts to illustrate this point. Consequently the two application marks are not awarded.

Question 2 (b)

This question produced a mixed response. Whilst many candidates knew the formula for gross profit margin and were able to complete the calculations correctly, there were a significant number who knew the formula but were unable to complete the calculations correctly. Other common mistakes were not calculating to two decimal places and/or failing to state the difference between 2020 and 2021.

- (b) Using the data in Extract F, calculate the difference in Peloton's gross profit margin between 2020 and 2021. State your answer to two decimal places. You are advised to show your working.

(4)

$$\frac{\text{gross profit}}{\text{revenue}} \times 100$$

$$\frac{930}{4021.80} \times 100 = 23.12\%$$

$$2569.80 - 1639.80 = 930$$

$$32.35\% - 23.12\% = \underline{\underline{-9.23\%}}$$



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Examiner Comments

1 mark awarded for stating the formula correctly.

- (b) Using the data in Extract F, calculate the difference in Peloton's gross profit margin between 2020 and 2021. State your answer to two decimal places. You are advised to show your working.

(4)

$$\text{Gross profit margin} = \frac{\text{Gross Profit}}{\text{Revenues}} \times 100$$

$$4021.80\text{m} - 2569.80\text{m} = 1452\text{m}$$

$$\frac{1452\text{m}}{4021.80\text{m}} \times 100 = 36.10\% \text{ for 2021}$$

$$2020 = 32.35\%$$

$$32.35 - 36.10 = -3.75$$

3.75% increase between 2020 and 2021.



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Examiner Comments

4 marks awarded for completing all the stages of the calculation correctly and stating the answer to two decimal places.

Question 2 (c)

This question was generally accessible, but there were a significant number of candidates who failed to attempt it. The majority of candidates were able to explain a negative effect on Peleton, usually in terms of the costs associated with complying with the legislation. Some candidates misinterpreted the question by discussing the quality problems Peleton faced but failed to link it to consumer protection legislation. A common weakness was that candidates could not provide a positive effect resulting from Peleton complying with the legislation. This resulted in many responses that lacked balance and overall judgement.

(c) Assess **one** likely effect of consumer protection legislation on Peloton.

(10)

Consumer protection legislation is used to protect customers from the wrong actions of a business. For example, a business selling a faulty product which they claimed was working well.

In order to ~~operate~~ operate according to consumer protection legislation, Peloton would have to increase costs to fix the crisis they are facing. They would most likely have to get rid of the ~~faulty~~ bikes and replace them with new ones instead of hiding the faults. This can be an expensive process as Peloton would have already lost money by producing faulty ~~products~~ bikes. They would have to pay more to ensure that they are delivering bikes which cannot cause ~~harm~~ ^{harm} to customers.

If Peloton continue to avoid the consumer protection legislation, they could face serious fines for putting customers in danger and offering faulty products. Not only would this decrease profit but it would also damage their reputation as customer no longer trust the company. Peloton would then make huge losses as demand for their products fall. This may also have a long term effect on Peloton as customers switch to better, safer alternatives and are

no longer loyal to Peloton.

Overall by continuing to produce and deliver defective bikes and not abiding by the consumer protection legislation, Peloton would face a huge loss in sales and reputation. They would no longer be appealing to their market as customer want to be paying for a safe way to exercise. In order to combat this they may have to discontinue their line of treadmills and replace it with a new product.



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Examiner Comments

This is considered a level 3 response, awarded 5 marks.

It reveals good understanding of the negative effects of consumer protection legislation, but does not provide a counter argument, resulting in an unbalanced answer.

(c) Assess **one** likely effect of consumer protection legislation on Peloton.

(10)

The consumer protection legislation is a law Peloton ~~must~~ must follow to protect the consumers from Peloton exploiting them. One likely effect of this on Peloton is products will have to be checked for any corrosion before being sold to consumers. Instead of returning the corroded bikes to the manufacturer, executives decided to cover it up and sell them to customers. The consumer protection legislation means that if a customer receives a corroded bike they are allowed a ~~refund~~ refund and if injuries occur because of the faulty bikes then Peloton could potentially get sued a lot of money. This will be expensive to Peloton and also damage their brand reputation which will lead to customers going to competitors and Peloton's market share and share price will fall significantly. However the consumer protection legislation could make consumers more likely to buy products because they have certainty and a feeling of protection from being

exploited by Pelebon. This ~~will~~^{could} then increase Pelebon's sales ~~and~~ and help them grow.

Overall the legislation will mean that Pelebon are at risk of their brand becoming sued ~~and~~ and will lose them a lot of money but if Pelebon fix their supply chain crisis and sell working ~~the~~ equipment then the legislation should just give consumers security and potentially make them want to buy a product or service from them.



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Examiner Comments

This is a level 4 response awarded 8 marks.

It considers both the negative and positive effects of the legislation. Arguments are developed and supported by relevant context, leading to a supported conclusion.

Question 2 (d)

This proved to be an accessible question. Most candidates provided arguments regarding the benefits of cutting costs as well as a counterargument. Fewer considered alternative ways to increasing profits linked to increasing revenue. Better responses made good use of the extracts to support the arguments. Most answers provided a conclusion, but usually these consisted of a summary of previous arguments. Some candidates failed to make the link between cutting costs to enable lower prices.

(d) Assess whether cutting costs is the best way to improve Peloton's profit.

(12)

Cutting costs is when a company will look at ~~the~~ what they are spending their money and will stop spending in some areas where they can still survive even if they cut the cost.

Cutting cost is not the best way to improve Peloton's profit, ~~the~~ they should just improve their product quality and stop selling people rusty bikes and treadmills because that will ~~ruin~~ ruin their brand name, ~~also~~ selling already rusted bikes would lead to customers returning their item which means that they would have not little to no profit and it can also get Peloton bikes in trouble because they are selling damaged goods, this could result in them getting into legal trouble as the products are being sold damaged.

Cutting cost is the best ~~a~~ good way to increase profits as it allows them to put their money elsewhere in the business, for example into production to ensure that they are no longer

Selling more bikes and helmets. If they
put the money where it needs to be they
~~could make their profits by a lot of money~~ it
could result in Peleton Bikes rebuilding their
brand image and becoming a company that people
will want to buy from.

As in all things that they should cut costs
as it would allow them to focus their
money on where it needs to be fixed, although
it depends on if their brand image is
already ruined or if they can make it up to
their customers.



ResultsPlus
Examiner Comments

This response is awarded level 2, 4 marks.

Whilst there is evidence of the benefit of cutting costs to release funds for improving the business, the argument regarding improving quality is not focused on how this could lead to improving Peleton's profit. There is no counter argument, resulting in a superficial conclusion.

(d) Assess whether cutting costs is the best way to improve Peloton's profit.

(12)

Cutting costs suggests that a company are willing to reduce their operations in order to generate a higher profit. This could be done by finding new suppliers, or even reducing personnel. Peloton may choose to reduce costs by changing suppliers and finding a cheaper way to produce their products. They could also reduce the amount of staff they have working within the company to cut costs. Another solution for Peloton may be to decrease wages of their employees. Using one or more of these methods would mean that Peloton are spending less on the production of their products and generating a higher profit.

However, it is not certain that Peloton can gain a higher profit through cutting costs. This is because finding a new supplier or decrease ~~the~~ amount of employees ~~may~~ could mean that Peloton are making products of a lower quality. As they are already notorious for faulty ~~power~~ treadmills it may not be best that Peloton downgrade to a cheaper alternative to produce their products. Customers may find that other alternatives in the market ^{have} higher quality and switch to those alternatives. Instead Peloton could focus on offering new, ~~best~~ improved products or

focus on their membership app which can appeal to customers in other markets. If they try and understand what the market wants, Peloton could create a new way, through their app, to attract fitness individuals and increase profit. If customers find another product/service they enjoy, they may stay with the company and continue to use it.

Overall, I think that cutting costs is not the best option if Peloton want to increase profits as it could lead to a further loss. Peloton are better off adapting and improving their existing products/services such as the membership app to attract new customers and possibly create a new, better image for themselves. A new product/service which fulfills the needs of customers is more likely to make a profit than a product with reduced quality.



This is considered a level 4 response awarded 10 marks.

The first paragraph considers a variety of ways to reduce costs and the benefits that Peleton could gain from this. However this paragraph lacks application. The remainder of the answer improves because it provides contextualised counter arguments linked to the quality issues that may result from cutting costs and an alternative way to improve profits by increasing revenue through the sale of the fitness app. The response concludes with a supported judgement that reveals perception and insight.

Question 2 (e)

This question produced a wide variety of responses in terms of quality. Most candidates could define PESTLE and provide valid arguments regarding why technology should be prioritised. Similar to Q01(e), the best responses were well structured, made selective well developed arguments supported by relevant examples and provided a recommendation that made use of 'MOPS'. The most obvious weakness was that many candidates misunderstood what is meant by social factors. Rather than discussing consumer tastes and trends, many candidates thought that social factors were linked to employee relations or interaction with customers. Consequently these responses were unable to be awarded marks above level 2.

(When reviewing Peloton's corporate strategy, its Chief Executive has identified technology as the most important PESTLE factor to prioritise. Other directors consider prioritising social factors as more important.

- (e) Evaluate these ^{distracted} ~~two~~ ^{↑ motivation} PESTLE factors and recommend which one Peloton should prioritise when developing its future corporate strategy.

(20)

Social factors in a corporate strategy ~~mean~~ means that employees have places to socialise with their colleagues. e.g. break room, gym.

An advantage of prioritising social factors in the workplace is that it will increase employees' motivation due to the fact they can socialise at work and get rid of some steam.

An increase of motivation means that employees will want to go to work and they will be happy at work. This can also improve their efficiency at work which can lead to an increased labour turnover and help Peloton ~~keep up with~~ keep up with the market.

However, social factors may ~~not motivate~~ ~~an employee~~ ~~this and~~ distract the employees from completing their tasks. If they don't all do their jobs then nothing will get done and the business will fall apart.

they would need to find a balance in their corporate culture between working and socialising which may take time.

Technology PESTLE factor focuses on giving the workers the technology and resources they need to do their jobs.

One advantage of this is the more technology the employees have, the easier and quicker they can do their jobs. The peloton is based off web classes and technology, so the smarter their technology is, the more chance consumers will buy a subscription which therefore increases sales over competitors.

However, technology can be a difficult and expensive thing to buy and keep up with because it's constantly changing. They would need to invest a lump sum of money into brand new technology which they may struggle to find after the decrease in demand. This may force them to

use an external form of finance to raise enough money such as a bank loan or venture capital, resulting in a them paying high interest fees or losing a percentage of the business.

in conclusion, I think they should invest in social factors. In the short term, they will not see much change but in the long term they will have a happy, relaxed corporate culture which will attract skilled workers into the business because they would have a good workplace and these skilled, intelligent ideas workers would be able to innovate their products.



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Examiner Comments

This response achieves level 2, 8 marks.

It reveals a lack of understanding of social factors, but the argument for technology has merit. However this argument is not well developed and lacks context. Due to the lack of understanding of social factors, the conclusion is incorrect.

When reviewing Peloton's corporate strategy, its Chief Executive has identified technology as the most important PESTLE factor to prioritise. Other directors consider prioritising social factors as more important.

- (e) Evaluate these **two** PESTLE factors and recommend which one Peloton should prioritise when developing its future corporate strategy.

(20)

PESTLE is a tool used by businesses to analyse its external environment, including political, economic, social, technological, legal, and ethical/environmental factors.

Currently there is a trend of consumers using virtual fitness sensors in smartphones.

Peloton don't offer this technology. ~~and this~~

~~instead~~ Prioritising this factor may help increase satisfaction of Peloton's customers in

their homes as they can now track their

progress. This may give Peloton a competitive

advantage over competitors such as Pure Gym

who may not offer this technology, leading

an increase in members renewing their subscriptions

resulting in revenues potentially increasing from

~~\$4021.8~~ \$4021.8 million. So this may be

the most important factor for developing its corporate

strategy.

However it's likely that in order to provide

the virtual fitness sensors, it will cost

Peloton a lot in order to install these sensors.

This may lead to Peloton having to

increase their price of their memberships in

order to compensate for the cost of installing the technology. meaning prioritising this factor ~~may~~ ^{for many} make feleton less competitive, due to its corporate strategy.

Online fitness classes have proved popular, due to consumers being able to access these at convenient times. prioritising this social factor in its corporate strategy by e.g. filming fitness classes so members can watch them when they wish. may be more convenient for members. Especially as, with the online fitness market growing by 33.1% a year ~~if it~~ prioritising social factors and producing online workouts should help feleton capitalise on this opportunity. Helping revenue recover after falling by 17%. However, by ~~not~~ producing the ~~wide~~ online classes online may ~~it~~ reduce demand for existing classes. This is because now members can access its classes online at anytime they may consider what is the point of paying for the digitally live streamed fitness classes when they have access to recorded ones. So although the largest online fitness provider prioritising social factors in its strategy may increase sales for some services such as recorded classes. Sales may fall

for other services such as live stream of fitness classes. Therefore ^{prioritising social factors} ~~this~~ may not increase sales.

On balance, with Peleton being the largest online fitness provider in order to retain this position prioritising social factors as recording fitness classes should help ensure members are retained. An important point is that with Peleton planning a \$800m cost cut, installing this new technology by giving customers access to this may damage Peleton's efforts to increase profit short term. It depends on competitors as is e.g. Pure Gym aren't offering recorded fitness classes. Then prioritising social out of PESTLE may help to gain a competitive advantage over them, allowing for a successful long term corporate strategy. So social factors should be prioritised.



This is considered a level 4 response with 17 marks.

It provides valid arguments for both technology and social factors. Both of these arguments are well explained and consistently illustrated with relevant examples from the extracts. Evaluation is in evidence throughout due to the limitations of each option being discussed. The overall recommendation is supported and makes use of 'MOPS' by recognising the competitive nature of the market in justifying the prioritisation of social factors.

Paper Summary

Candidates and centres are offered the following advice:

- The best responses are those that show good subject knowledge, can make fewer well developed arguments supported by examples from the extracts and when required, provide supported conclusions.
- Regular opportunities are needed to test knowledge of the concepts taught. Regular practice of past questions, preferably under timed conditions is essential for developing exam technique.
- Additional paper should be used to complete an answer, rather than using 'spare' pages from other questions in the answer booklet. This will enable examiners to read the full response to each question.

Grade boundaries

Grade boundaries for this, and all other papers, can be found on the website on this link:

<https://qualifications.pearson.com/en/support/support-topics/results-certification/grade-boundaries.html>

